

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 8122

BILL NUMBER: SB 487

DATE PREPARED: Feb 13, 2001

BILL AMENDED: Feb 12, 2001

SUBJECT: EDGE Credits.

FISCAL ANALYST: Brian Tabor

PHONE NUMBER: 233-9456

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: This bill allows a person who proposes a project intended to preserve jobs in Indiana to apply for an Economic Development for a Growing Economy (EDGE) tax credit. It allows the EDGE Board to enter into an agreement for a tax credit with an applicant whose project will preserve jobs in Indiana. The bill also requires the Board to confirm the existence of certain conditions before entering into an agreement with the applicant for a tax credit. It specifies that a credit may be granted only if the average wage paid by the applicant exceeds: (1) a percentage, determined by the EDGE Board, of the average wage paid within the county in which the project will be located; or (2) a minimum livable wage determined for the county by the Board.

Effective Date: July 1, 2001.

Explanation of State Expenditures: This bill may increase the amount of EDGE credits awarded annually as a greater number of businesses would be eligible for the credit. Currently, only businesses creating new jobs may apply. Under this proposal, businesses that would preserve jobs may also apply. This broader eligibility may expand the applicant pool, creating additional administrative demands on the Indiana Department of Commerce (IDOC) which provides administrative support to the EDGE Board. The Department should be able to meet these demands given its current budget and resources.

The State Budget Agency (SBA) is also required to certify that EDGE credit awards will provide an overall positive fiscal impact to the state. An expanded applicant pool may increase the number of EDGE studies performed by the SBA, however, the impact is not expected to be significant.

Explanation of State Revenues: (Revised) The EDGE program was designed to provide a revenue-neutral incentive for businesses to create new investment and jobs in Indiana. Businesses received credits based on (but not exceeding) the individual income taxes withheld for employees filling the newly created positions. Since revenue from these employees would not have been collected in the absence of the new development,

the state would not incur a net loss by redistributing the incremental income revenue as tax credits to businesses.

Under current law, the EDGE Board is required to consider several factors when determining credit amounts, including if the average wage paid by the applicant exceeds the average wage within the affected county. This bill would relax this standard and require the Board to consider if the average wage paid by the applicant exceeds: (1) a certain percentage to be determined by the Board of the county's average wage; or (2) a minimum livable wage determined by the Board. (NOTE: This provision applies only to credits for job creation, not those for job retention as explained below.)

This bill also extends eligibility for EDGE credits to businesses involved in research and development, manufacturing, or business services that, in the face of more profitable alternatives, elect to maintain current employment in Indiana. These firms must also provide average compensation at least equal to the average wage of the county in which they are sited. Under this scenario, the amount of EDGE credits granted would *not* necessarily be based on withholding taxes for the employees whose jobs are being retained. *As there is no maximum amount specified, the EDGE Board would have final approval of the actual amount.* No new revenue would be realized since no new jobs would be created. Credits would then be paid from existing revenues, resulting in a net loss to the state equal to the amount of EDGE credits granted to these businesses. However, if the firm chose a more profitable alternative and moved out of Indiana, there could be an even greater loss of revenue from the reduction in individual (employees) and corporate income taxes.

EDGE credits may be taken against a taxpayer's Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Bank Tax, Savings and Loan Association Tax, Insurance Premium Tax, or Financial Institutions Tax liabilities. The duration of the credit may not exceed ten taxable years. In 1999, the EDGE Board approved \$133.1 M in new credits (to be taken over several years) for twelve companies with the expectation of 10,177 new jobs being created. IDOC estimates that approximately \$11.6 M of credits may be taken in the 1999 tax year for all projects approved from 1994 to date.

Both individual and corporate income taxes are distributed to the General Fund. A percentage of corporate Adjusted Gross Income Tax revenue is also distributed to the Property Tax Replacement Fund. This bill may impact revenue collections beginning in FY 2002.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Department of Commerce, State Budget Agency.

Local Agencies Affected:

Information Sources: Christina Casper-Cozzolino, Indiana Department of Commerce, (317) 233-3397.